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STATE OF CONNECTICUT  
DEPARTMENT OF REVENUE SERVICES

**IP 2003(10)**

**INFORMATIONAL PUBLICATION**

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**Q & A on Connecticut Income and Withholding Tax Changes  
Effective January 1, 2003**

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**Purpose:** This Informational Publication is intended to answer commonly-asked questions concerning recent legislation that increased the highest marginal Connecticut income tax rate for taxable years beginning on or after January 1, 2003.

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**Effective Date:** January 1, 2003.

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**Statutory Authority:** Conn. Gen. Stat. §12-700, as amended by 2003 Conn. Pub. Acts 2 (January Session 2003).

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**1. What Is the Highest Marginal Connecticut Income Tax Rate?** The highest marginal rate for Connecticut income tax imposed on individuals has been increased from 4.5% to 5%.

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**2. When Is the 5% Income Tax Rate Effective?** The 5% income tax rate is effective January 1, 2003, and is applicable to taxable years beginning on or after that date.

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**3. How Will the Increase in the Connecticut Income Tax Rate Affect Me?** If your filing status is either **Single** or **Married Filing Separately** on your Connecticut income tax return, and your Connecticut taxable income is **less than or equal to \$10,000**, the amount of Connecticut income tax that you will pay (through withholding, estimated tax payments, or both) will not change; however, if your Connecticut taxable income is **more than \$10,000**, your Connecticut income tax is **\$300, plus 5.0% of the excess over \$10,000**. Previously, you paid \$300, plus 4.5% of the excess over \$10,000.

**Example:** If your filing status is **Single** or **Married Filing Separately** and your Connecticut taxable income is \$55,000, your Connecticut income tax will be \$2,550:

$$\begin{aligned} \$55,000 - \$10,000 &= \$45,000 \\ \$45,000 \times .05 &= \$2,250 \\ \$2,250 + \$300 &= \$2,550 \end{aligned}$$

Previously, you paid \$2,325:

$$\begin{aligned} \$55,000 - \$10,000 &= \$45,000 \\ \$45,000 \times .045 &= \$2,025 \\ \$2,025 + \$300 &= \$2,325 \end{aligned}$$

If your filing status is **Head of Household** on your Connecticut income tax return, and your Connecticut taxable income is **less than or equal to \$16,000**, the amount of Connecticut income tax that you will pay (through withholding, estimated payments, or both) will not change; however, if your Connecticut taxable income is **more than \$16,000**, your Connecticut income tax is **\$480, plus 5.0% of the excess over \$16,000**. Previously, you paid \$480, plus 4.5% of the excess over \$16,000.

**Example:** If your filing status is **Head of Household** and your Connecticut taxable income is \$80,000, your Connecticut income tax will be \$3,680:

$$\begin{aligned} \$80,000 - \$16,000 &= \$64,000 \\ \$64,000 \times .05 &= \$3,200 \\ \$3,200 + \$480 &= \$3,680 \end{aligned}$$

Previously you paid \$3,360:

$$\begin{aligned} \$80,000 - \$16,000 &= \$64,000 \\ \$64,000 \times .045 &= \$2,880 \\ \$2,880 + \$480 &= \$3,360 \end{aligned}$$

If your filing status is **Married Filing Jointly** on your Connecticut income tax return, and your Connecticut taxable income is **less than or equal to \$20,000**, the amount of Connecticut income tax that you will pay (through withholding, estimated payments, or both) will not change; however, if your Connecticut taxable income is **more than \$20,000**, your Connecticut income tax is **\$600, plus 5.0% of the excess over \$20,000**. Previously, you paid \$600, plus 4.5% of the excess over \$20,000.

**Example:** If your filing status is **Married Filing Jointly** and your Connecticut taxable income is \$101,000, your Connecticut income tax will be \$4,650:

$$\begin{aligned} \$101,000 - \$20,000 &= \$81,000 \\ \$81,000 \times .05 &= \$4,050 \\ \$4,050 + \$600 &= \$4,650 \end{aligned}$$

Previously, you paid \$4,245:

$$\begin{aligned} \$101,000 - \$20,000 &= \$81,000 \\ \$81,000 \times .045 &= \$3,645 \\ \$3,645 + \$600 &= \$4,245 \end{aligned}$$

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**4. What is My “Connecticut Taxable Income”?** Your Connecticut taxable income is your Connecticut adjusted gross income less any **personal exemption** that is available to you. Your Connecticut adjusted gross income is your federal adjusted gross income after adding or subtracting any Connecticut modifications required to be reported on **Schedule 1, Modifications to Federal Adjusted Gross Income** of **Form CT-1040, Connecticut Resident Income Tax Return** or **Form CT-1040NR/PY, Connecticut Nonresident or Part-Year Resident Income Tax Return**.

Your Connecticut taxable income and your filing status are used to calculate your tentative Connecticut income tax. After calculating your tentative Connecticut income tax, a **personal tax credit** may be deducted (if available to you) to arrive at your Connecticut income tax. The personal exemptions and personal tax credits available to you for the 2003 taxable year are not affected by the change in the highest marginal tax rate.

**Note:** For the personal exemption and the personal tax credit available to you, see Table A and Table C of the **Tax Calculation Schedule** included in the **2002**

**Connecticut Income Tax Booklet, Form CT-1040ES, 2003 Estimated Connecticut Income Tax Payment Coupon For Individuals**, or on the DRS Website at: [www.drs.state.ct.us](http://www.drs.state.ct.us)

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**5. What Should I Do to Ensure That I Will Have Enough Connecticut Income Tax Withheld From My Wages By the End of the Year?** If you have Connecticut income tax withheld from your wages and have little or no nonwage income, there is nothing that you need to do. The Department of Revenue Services (DRS) issued new withholding tables that are effective from March 1, 2003 through June 30, 2003. Your employer is required to use these tables when calculating Connecticut income tax withholding on wages paid during the period of March 1, 2003 through June 30, 2003. By using these tables, employers will “catch-up” for the underwithholding which resulted from withholding at the rate of 4.5% instead of 5% for the first two months of the 2003 taxable year.

In June 2003, DRS will issue new Connecticut income tax withholding tables for the period of July 1, 2003 through December 31, 2003, reflecting the 5% Connecticut income tax rate. At that time, the “catch-up” amounts will be removed.

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**6. If I Receive a Bonus or Other Supplemental Compensation From My Employer, What Is the Rate of Connecticut Income Tax That Should Be Withheld?** Except for the change in the highest marginal rate, the withholding rules for supplemental compensation (such as bonuses, commissions, overtime pay, sales awards, etc.) remain the same. The rate will vary as follows:

**Supplemental compensation paid at the same time as regular wages:** When supplemental compensation is paid at the same time as regular wages, the tax withheld should be determined as if the total of the supplemental and regular wages were a single payment for the regular payroll period using the tables that are in effect on the date that the payment is made. For the period of March 1, 2003 through June 30, 2003, the total of the supplemental and regular wages will be subject to the highest marginal “catch-up” income tax rate of 5.25%. For the period of July 1, 2003 through December 31, 2003,

the total of the supplemental and regular wages will be subject to the highest marginal income tax rate of 5%.

**Supplemental compensation paid at a different time than regular wages:** If supplemental compensation is paid at a different time than regular wages, the method of withholding depends on whether the employer withheld Connecticut income tax from the employee's regular wages.

- **If Connecticut income tax was withheld on regular wages:** If the employer withheld Connecticut income tax from the employee's regular wages, the employer must compute the tax on the combined regular and supplemental wages using the tables that are in effect on the date that the payment is made. The computed tax minus the tax withheld from regular wages is the tax to be withheld from supplemental wages. For the period from March 1, 2003 through June 30, 2003, the total of the supplemental and regular wages will be subject to the highest marginal "catch-up" income tax rate of 5.25%. For the period of July 1, 2003 through December 31, 2003, the total of the supplemental and regular wages will be subject to the highest marginal income tax rate of 5%.
- **If Connecticut income tax was not withheld on regular wages:** If the employer did not withhold Connecticut income tax from the regular wages, the regular and supplemental wages should be added together and the tax computed on the whole amount using the tables that are in effect on the date that the payment is made. For the period of March 1, 2003 through June 30, 2003, the total of the supplemental and regular wages will be subject to the highest marginal "catch-up" income tax rate of 5.25%. For the period of July 1, 2003 through December 31, 2003, the total of the supplemental and regular wages will be subject to the highest marginal income tax rate of 5%.

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**7. How Should I Calculate My Estimated Payments for the 2003 Taxable Year to Ensure That I Am Not Underpaid?** In general, if you do not make timely installments of your *required annual payment* and your Connecticut income tax for the 2003 taxable year (after tax credits) minus Connecticut income tax withheld for the 2003 taxable year is more than \$500, you will be charged interest on the underpaid amount.

Your *required annual payment* for the 2003 taxable year is the lesser of:

- **90% of the income tax shown on your 2003 Connecticut income tax return.** The simplest approach would be to calculate your 2003 estimated tax using the new 5% tax rate and then pay in 90% of that tax in four equal timely installments. However, you may use the old 4.5% tax rate to calculate your April 15, 2003, installment, but on or before June 15, 2003, you are required to pay in at least 50% of the tax shown on your 2003 Connecticut income tax return using the new 5% tax rate. Therefore, if you use the 4.5% tax rate for the April 15, 2003, installment, you must pay a larger June 15, 2003 installment to "catch up". To determine the amount of your June 15, 2003, "catch-up" installment, complete **Form CT-1040ES, 2003 Estimated Connecticut Income Tax Worksheet - June 2003 Catch-Up**. The September 15, 2003, and the January 15, 2004, installments must be calculated using the 5% tax rate.
- **100% of the income tax shown on your 2002 Connecticut income tax return.** You may use 100% of your 2002 Connecticut income tax and pay in 25% of that tax for your April 15, 2003, September 15, 2003, and January 15, 2004, installments. However, on or before June 15, 2003, you are required to pay in at least 50% of the tax shown on your 2002 Connecticut income tax return, recalculated by using the new 5% tax rate. Therefore, you must pay a larger June 15, 2003, installment to "catch up". To determine the amount of your June 15, 2003, "catch-up" installment, complete **Form CT-1040ES, 2003 Estimated Connecticut Income Tax Worksheet - June 2003 Catch-Up**.

**Form CT-1040ES, 2003 Estimated Connecticut Income Tax Worksheet - June 2003 Catch-Up**, was mailed to you with your 2003 Estimated Coupon Booklet or may be downloaded from the DRS Website at: [www.drs.state.ct.us](http://www.drs.state.ct.us)

**8. At What Rate Is Connecticut Income Tax To Be Withheld From Gambling Winnings and Connecticut Lottery Winnings That Are Paid During 2003?** If the gambling winnings or winnings from the Connecticut Lottery (including Powerball) are subject to Connecticut income tax withholding, Connecticut income tax

must be withheld as follows:

- If the winnings are paid between March 1, 2003 and June 30, 2003, Connecticut income tax must be withheld at the “catch-up” rate of 5.25%;
- If the winnings are paid on or after July 1, 2003, Connecticut income tax must be withheld at the rate of 5%.

These rules apply whether the winners are receiving monthly or annual payments or are receiving a one-time payment.

For further information on whether the winnings are subject to Connecticut income tax withholding, see **Informational Publication 2001(29)**, *Connecticut Income Tax Treatment of Gambling Winnings Other Than State Lottery Winnings*, and **Informational Publication 2002(18)**, *Connecticut Income Tax Treatment of State Lottery Winnings Received by Residents and Nonresidents of Connecticut*.

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**Effect of This Document:** An Informational Publication is a document issued by DRS that addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

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**For Further Information:** Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
  - **860-297-5962** (from anywhere)
  - **TTY, TDD, and Text Telephone users only** may transmit inquiries 24 hours a day by calling 860-297-4911.
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**Forms and Publications:** Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site: **[www.drs.state.ct.us](http://www.drs.state.ct.us)**
  - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
  - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.
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**Paperless Filing Methods (fast, easy, free, and confidential):**

- **For business returns:** Use ***Fast-File*** to electronically file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the internet or telephone. Visit the DRS Web site at: **[www.drs.state.ct.us](http://www.drs.state.ct.us)** and click on ***Fast-File Program***.
- **For resident income tax returns:** Use ***WebFile*** to file personal income tax returns over the Internet. Visit the DRS Web site at: **[www.drs.state.ct.us](http://www.drs.state.ct.us)** and click on ***File Tax Returns On-Line***.